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DE RUEHEG #3305/01 3251135  
ZNR UUUUU ZZH  
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FM AMEMBASSY CAIRO  
TO RUEHC/SECSTATE WASHDC PRIORITY 7499  
INFO RUEHKK/ARAB ISRAELI COLLECTIVE PRIORITY  
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STATE FOR EB, NEA/ELA  
USTR FOR DONNELLY/MOWREY  
COMMERCE FOR 4520/ITA/ANESA/OBERG

E.O. 12958: N/A  
TAGS: [ECON](#) [ETRD](#) [KTEX](#) [EG](#) [IS](#)  
SUBJECT: EGYPT, ISRAEL JOINTLY PRESS FOR QIZ EXPANSION

REF: A. CAIRO 3022  
[B](#). CAIRO 3023  
[C](#). 2006 CAIRO 7219

Sensitive but unclassified, not for Internet distribution.

[1](#). (U) SUMMARY: Egyptian and Israeli trade negotiators and industrialists sought USG approval of their joint proposal to expand the Qualified Industrial Zone (QIZ) into Upper Egypt during the quarterly meeting of the QIZ joint committee Nov. 18 in Cairo. The committee also sought clarification of the USG position on a GOE-GOI agreement to reduce the required level of Israeli content in QIZ exports. We responded that the USG does not need to approve the agreement but that a formal response from USTR is expected. QIZ export growth slowed in the third quarter of 2007, according to statistics released at the meeting, while an Israeli official said several Israeli exporters lost interest in the program as the declining dollar made exports to Europe more lucrative. END SUMMARY.

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QIZ Expansion  
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[2](#). (U) In the first meeting of the QIZ committee since the GOE and GOI agreed to reduce the Israeli content requirement and request USG approval for a QIZ expansion (refs A and B), the committee pressed for speedy USG consideration of the expansion proposal. GOI co-chairman Gabby Bar said that Israeli businessmen sought QIZ expansion to compensate for an expected loss in sales to Egypt following the agreement to reduce the required level of Israeli content from 11.7 to 10.5 percent.

[3](#). (U) Egyptian co-chair Sayed El-Bous argued that the expansion could help Egyptian industrialists expand QIZ production beyond ready-made garments into areas such as furniture, leather, plastics, and chemicals, although the economics of the arrangement make such an expansion difficult. (Note: Unless Egyptian exporters are able to purchase enough low-priced Israeli inputs, their increased costs for the Israeli content will exceed their duty-free savings. End note.) Ali Awni, director of the GOE's QIZ Unit, noted that low US tariffs for many products further limit the possibilities for QIZ exports because the tariff-free benefit is less lucrative for such products.

[4](#). (U) Even so, several Egyptian industrialists are considering new investments in non-textile factories if the QIZ expands to Upper Egypt. Ali Moussa, chairman of the Cairo Chamber of Commerce and owner of a food-processing company, told econoff before the meeting that he and other

investors had prodded the GOE to seek QIZ expansion to facilitate food-processing investments in Upper Egypt. Anis Aclimandos, president of TransCentury Associates, said he had been approached by Israeli rubber manufacturers seeking to export rubber seals for various new QIZ products. Dan Catarivas, Director of the World Trade Center of Israel, told the committee that Israeli and Egyptian businessmen should jointly investigate possibilities for expanding QIZ production beyond textiles.

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Israeli content requirement  
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15. (U) Bar and El-Bous also sought USG reaction to the agreement on Israeli content. We noted to the committee that USG approval of the content agreement is not necessary, but that the USG welcomes the agreement in any case and that a formal response from USTR is expected.

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QIZ growth slowing  
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16. (U) QIZ exports in the third quarter of 2007 reached USD \$188 million, a 2.9 percent increase from the second quarter of 2007. However, that rate of growth was less than the 9.5 percent increase from the first to the second quarter, as well as the 7.9 percent increase in the comparable period in 2006. With the exception of a nominal amount of food exports -- USD \$101,000, or far less than 1 percent of the total -- all of the exports were in ready-made garments and textiles, including 57 percent for jeans and other pants.

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17. (U) Israeli exports under the program rose 5.6 percent to USD \$22 million in the third quarter of 2007. Catarivas said that although overall Israeli exports rose, several Israeli companies that had been participating in the program decided to focus their efforts instead on Europe because of the decline in value of the dollar relative to the euro. Awni added after the meeting that Egyptian MoT statistics indicated the declining dollar was diverting some Egyptian exports from the United States to Europe, a partial explanation for the slowing QIZ growth. Tight labor markets in existing QIZ areas also appear to be a continuing constraint on the growth of the program (ref C).  
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